

HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

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August 15, 2005

CBO Confirms 2005 Will Post the Third Largest Deficit in History

2005 Budget at a Glance

Revenues (receipts to gov't) \$2.142 trillion

Outlays (gov't spending) \$2.473 trillion

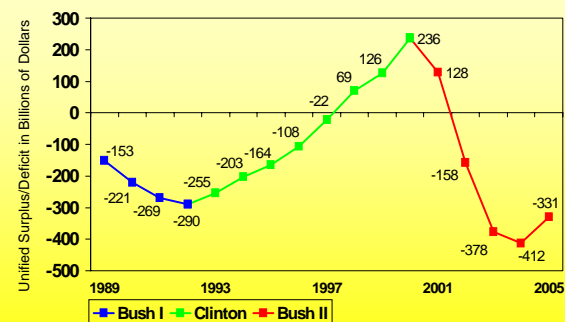
Deficit (receipts - spending) \$331 billion

Today the nonpartisan Congressional Budget Office (CBO) released its *Update* of the Budget and Economic Outlook. Today's report confirms that the 2005 deficit will be the third largest in history and that the long-term budget outlook remains bleak.

Third Largest Deficit in History — The \$331 billion deficit for 2005 is the third worst in history. In fact, over the last three years – 2003, 2004, and 2005 – the Bush Administration has overseen the three largest deficits in our nation's history. When the calculation excludes the Social Security surplus, the 2005 deficit is \$504 billion.

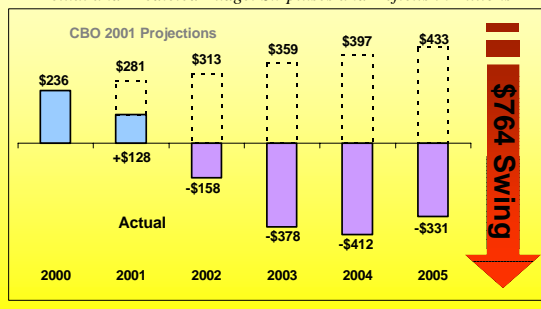
Backsliding Into the Deficit Ditch

From Deficit to Surplus to Deficit Again



Republicans' Projected Surpluses Become Huge Deficits

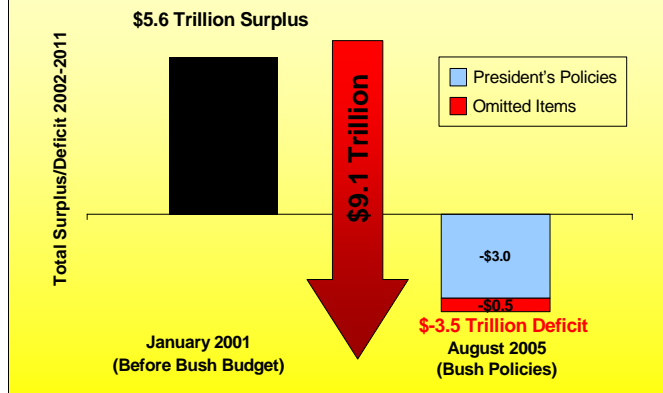
Actual and Predicted Budget Surpluses and Deficits in Billions



\$764 Billion Deterioration is Not Real Progress

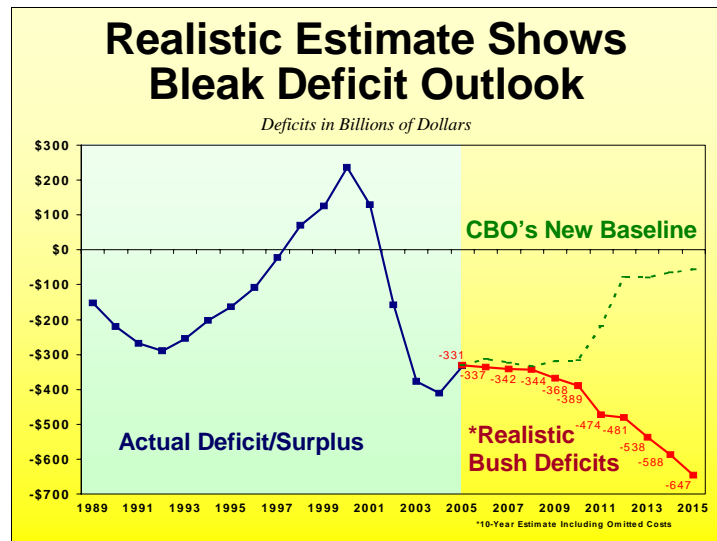
— While it is good that earlier forecasts of the 2005 deficit now appear to have been too pessimistic, today's report confirms that the budget has deteriorated dramatically under this Administration's policies. When the Bush Administration took office in January 2001, CBO projected a surplus of \$433 billion for 2005. Today's 2005 deficit estimate represents a deterioration since this Administration took office of \$764 billion for this year alone.

Surplus Declines \$9.1 Trillion Under Republican Policies



\$9.1 Trillion Reversal Under Bush Administration — As always, CBO's summer update provides a "baseline" forecast that assumes no changes are made to current law. When the full cost of the Administration's proposed budget changes and Social Security privatization plans are factored in, along with the likely cost of operations in Iraq and Afghanistan and the cost of repairing the Alternative Minimum Tax (AMT), the long-term budget outlook is bleak, indeed. In fact, the \$5.6 trillion ten-year surplus inherited by this Administration has become a projected deficit of \$3.5 trillion – a \$9.1 trillion swing in the wrong direction.

Republicans Have No Plan to Eliminate the Deficit — Republicans claim that the deficit will be cut in half by 2009 – perhaps suggesting that the deficit will be eliminated entirely over ten years. But because CBO's numbers are required by law to incorporate no changes to current law, today's forecast does not reflect the cost of the Administration's policy proposals. When the likely costs noted above are factored in, the annual deficit after 2005 gets continually worse, never dropping below the 2005 deficit of \$331 billion.



Republican Tax Cuts Are Major Cause of Budget Deficits — The Bush Administration and Congressional Republicans have attempted to minimize the role that their own policies have played in creating this bleak fiscal outlook. Yet, in the face of record deficits, Republicans are calling for \$1.4 trillion in new tax cuts over the next decade.

Deficit Estimate Revised Since March to Reflect Improved Receipts — The 2005 deficit estimate in today's report is \$33 billion better than the estimate CBO issued in March. The change is largely the result of tax receipts that are \$85 billion higher than projected earlier in the year (offset in part by outlays that are \$51 billion higher than estimated).

But Increase in Receipts May Not Be Permanent — One should not, however, jump to the conclusion that the surge in revenue this year will be a permanent one. Much of the increase in corporate tax receipts is the result of the expiration of bonus depreciation provisions at the end of

2004 and of a one-time provision in last October's tax bill that encouraged repatriation of multinational corporations' overseas earnings. Most of the increase in individual income taxes is in non-withheld income taxes; this category includes revenues from capital gains and other investment income, which are more likely to reflect a one-time surge.

CBO Numbers Cast Doubt On Administration's Rosy Assumptions — Despite the grounds for caution noted above, the Administration's July 2005 Mid-Session Review of the budget assumed that the increase in revenue for 2005 would essentially recur in future years. Relative to its February budget, OMB's July deficit numbers reflect an upward economic and technical revision in receipts of \$87 billion for 2005, and of at least \$73 billion for each of the next five years. Over the five years 2006-10, OMB's July deficit numbers assume that receipts will be \$406 billion more favorable than its earlier forecast. By contrast, CBO's revision is far less optimistic. Relative to its March numbers, today's CBO report reflects an upward economic and technical revision of receipts of \$84 billion for 2005, tapering off to \$13 billion by 2010 and less than \$5 billion by 2015. In total, CBO's new baseline deficit numbers for 2006-10 assume that receipts will be \$157 billion more favorable than anticipated earlier this year – a difference of \$249 billion relative to OMB's optimistic assumptions. The CBO report notes that “the sources of the current strength in corporate tax receipts will not be known until information from tax returns becomes available in future years, but CBO anticipates that most of the strength will be temporary.” CBO also “sees the 2005 increase [in individual tax receipts] as temporary and generally phases it out over the next five years in the baseline.”

Republicans Spend 100 Percent of Social Security Surplus — Since 2002, Republican budgets have used all \$639 billion of Social Security's annual surpluses to help pay for their tax cuts and finance their deficits. This year's Republican budget continues to do so, spending another \$1.1 trillion of the Social Security surplus (including interest income) over the next five years alone. In June, Congressional Republicans announced a plan to spend 100 percent of Social Security's annual cash surpluses on private accounts designed to replace a portion of Social Security, a plan that increases the publicly held debt by more than \$1 trillion over the next ten years.

Republicans Increase the Debt — Sustained deficits mean a growing mountain of debt. Republican policies have already required three increases in the statutory debt limit – a combined increase of \$2.2 trillion – since 2002. This year's Republican budget makes the debt problem even worse, as the House has acknowledged by passing a \$781 billion debt limit increase as part of this year's budget resolution. Even with the revised deficit estimates in today's report, it is likely that this next debt limit increase will be required in 2006.

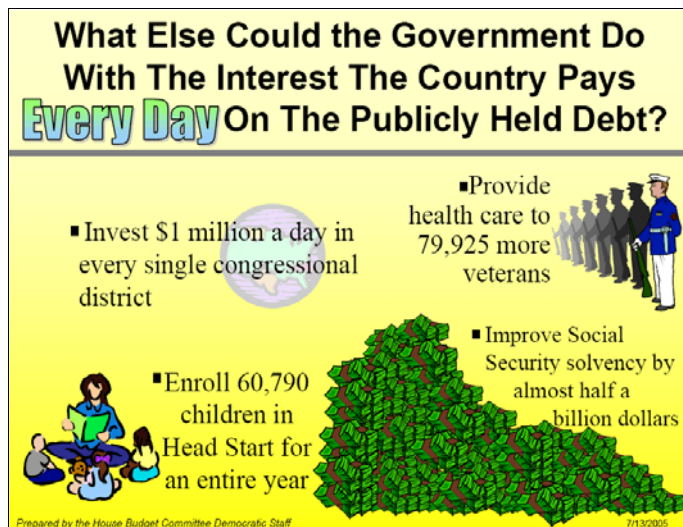
Republicans Increase the Debt Limit by **\$2.2 Trillion**

Debt Limit Increases, Billions of Dollars

June 2002	\$450
May 2003	\$984
November 2004	\$800
Total Increases	\$2,234

Republican Deficits Mean Resources Wasted Paying Interest on Debt —

A growing portion of the budget is being diverted to pay the interest on the debt that has accumulated under Republican policies. In 2004, the government paid \$160 billion for net interest on the federal debt held by the public. Under this Administration's policies, that figure will grow to \$461 billion by 2015. These are resources that cannot be used to make critical investments that keep our nation strong.



Public Debt Load on Economy Still Increasing

Debt as Percentage of GDP

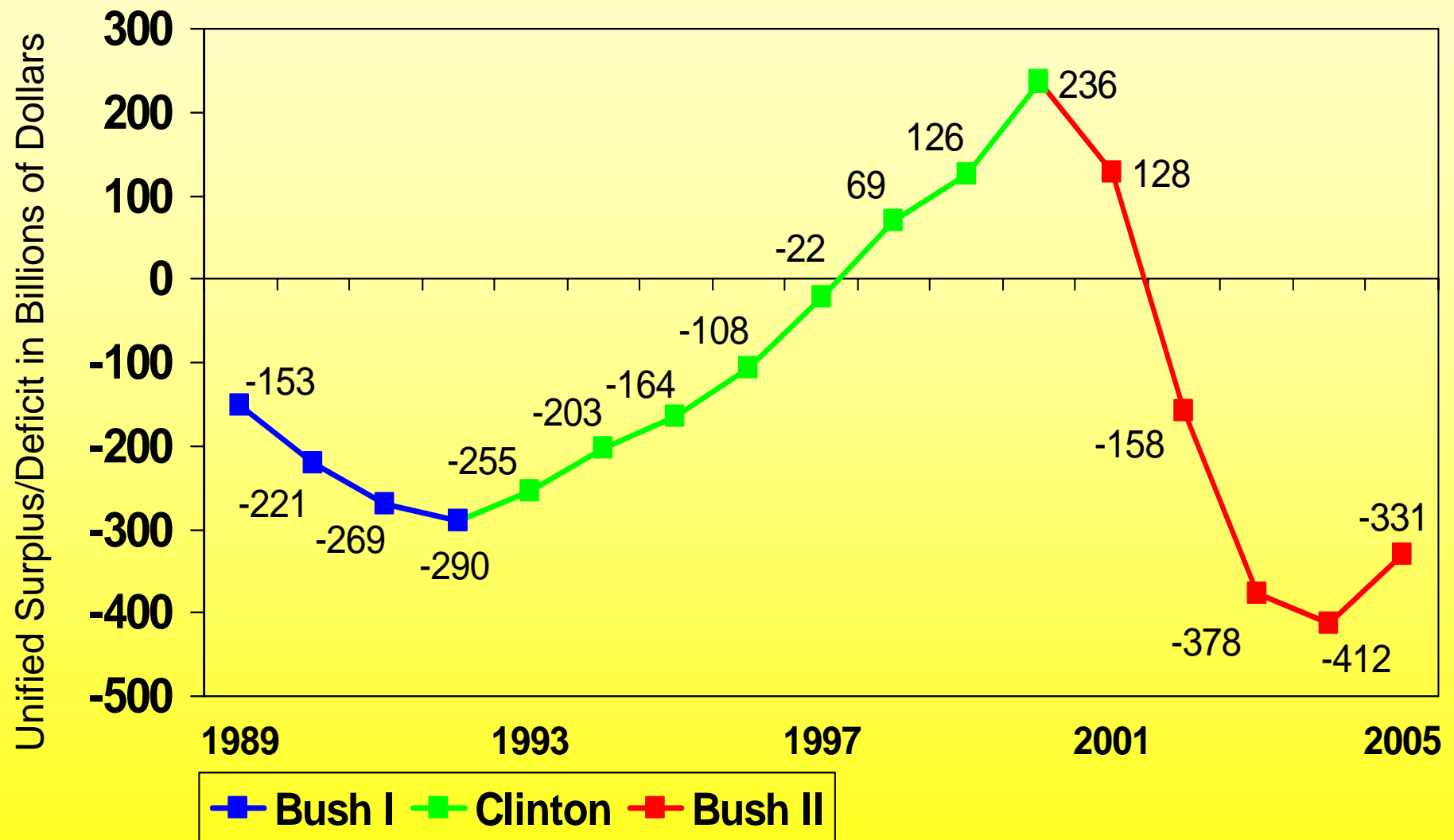
2001	33.0%
2002	34.1%
2003	36.1%
2004	37.2%
2005	37.7%

Deficits Weaken Our Economic Position — Large budget deficits undermine our long-term economic strength by putting upward pressure on interest rates and crowding out private investment. Meanwhile, our growing dependence on foreign borrowing increases our vulnerability to economic instability from abroad.

Democrats Balance the Budget — In contrast to Republicans' fiscally irresponsible policies, House Democrats proposed a budget this year that returns to balance by 2012, and we continue to advocate the reinstatement of the budget rules that helped us move the budget to a surplus of \$236 billion five short years ago.

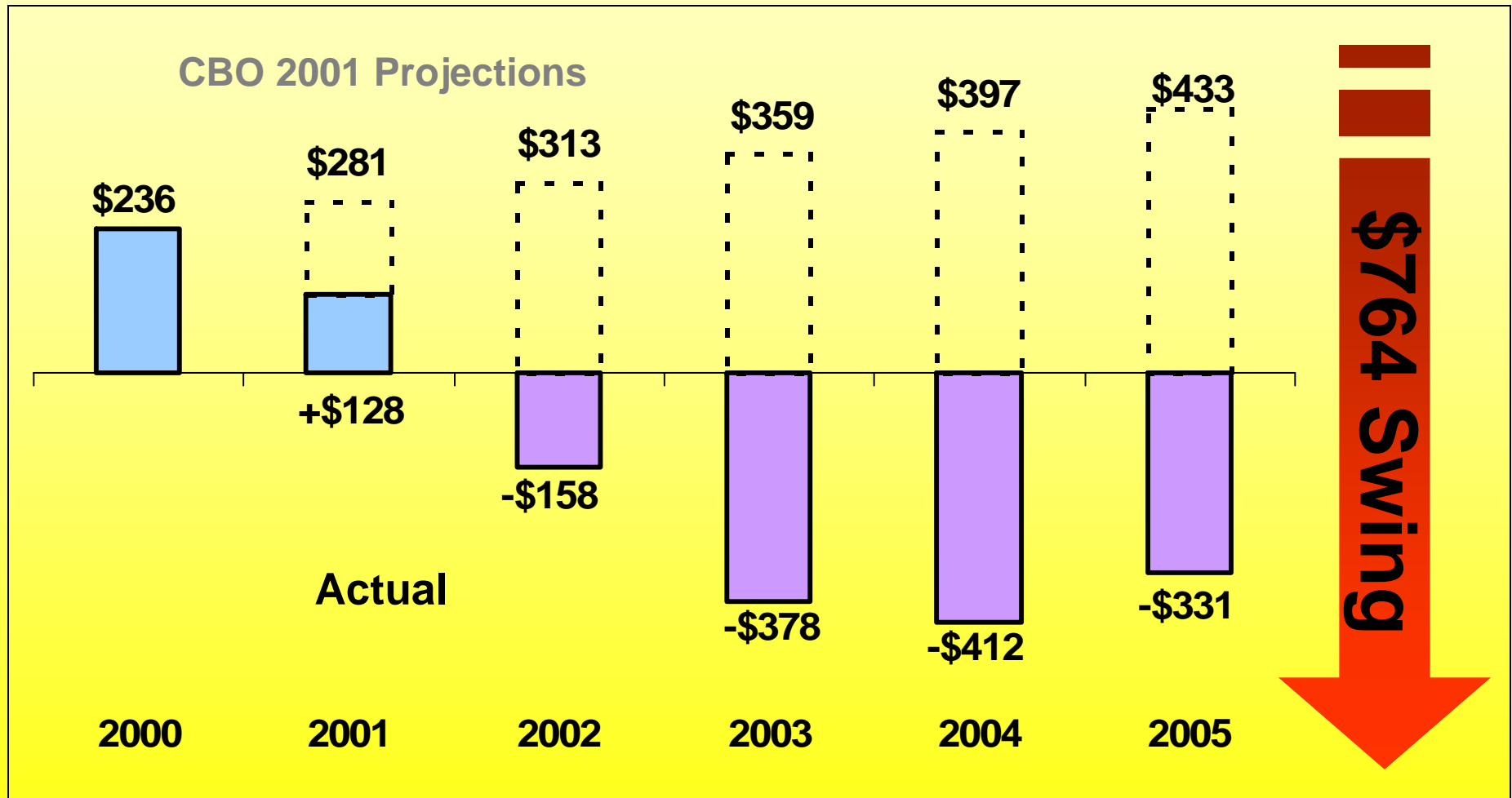
Backsliding Into the Deficit Ditch

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Republicans' Projected Surpluses Become Huge Deficits

Actual and Predicted Budget Surpluses and Deficits in Billions



Baseline Deficits Don't Reflect Bush Agenda



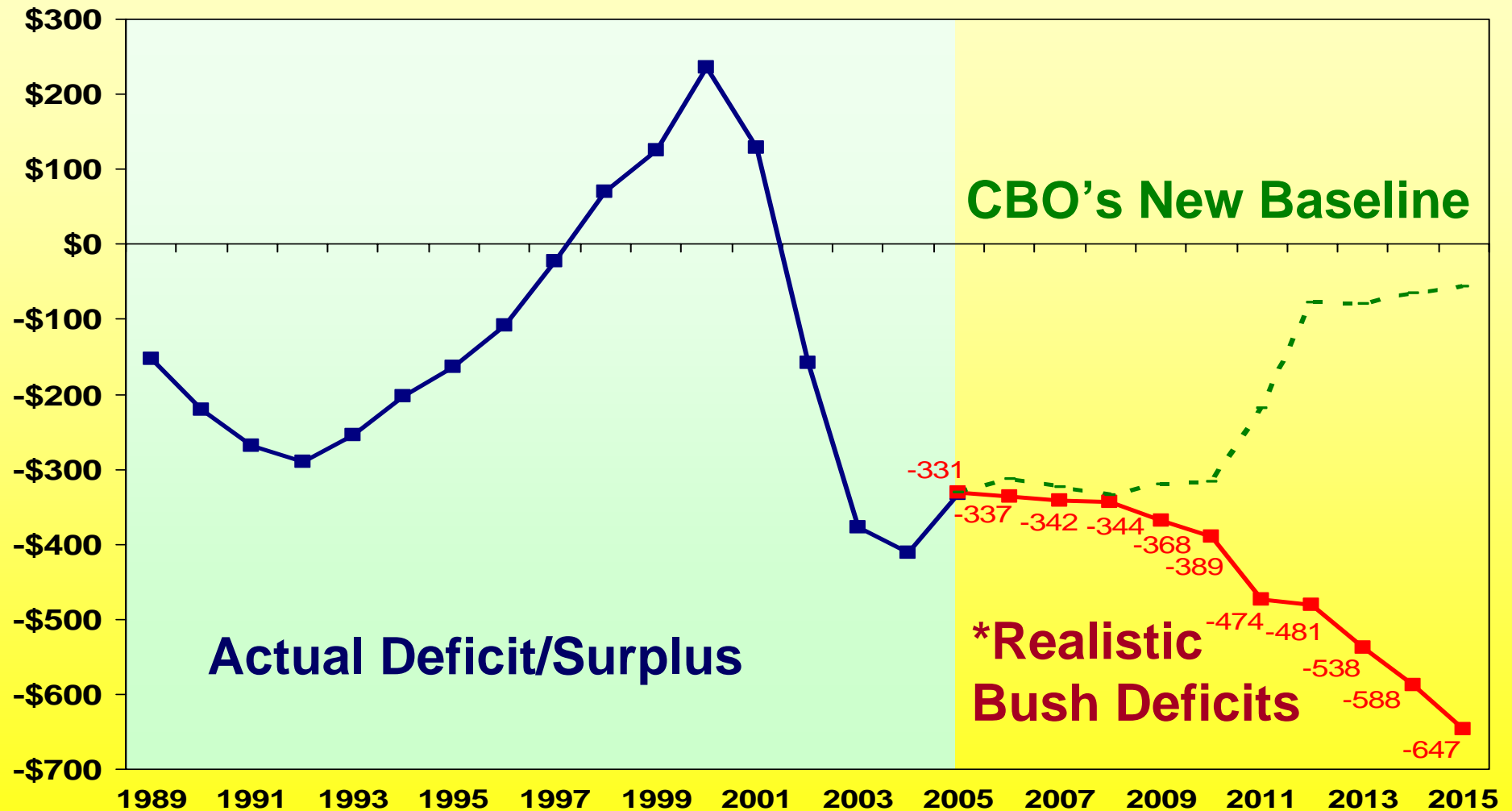
Baseline estimates omit

- | | |
|--|----------------|
| • Making tax cuts permanent and remaining tax agenda | \$1.4 Trillion |
| • Fixing AMT | \$642 Billion |
| • Long-term defense buildup | \$290 Billion |
| • Privatizing Social Security | \$662 Billion |

Plus resulting debt-service costs

Realistic Estimate Shows Bleak Deficit Outlook

Deficits in Billions of Dollars



*10-Year Estimate Including Omitted Costs

CBO Budget and Economic Outlook: August 2005 Update

Billions of Dollars

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Total</u> <u>2006-2015</u>
CBO Baseline Deficits, August 2005	-331	-314	-324	-335	-321	-317	-218	-78	-80	-66	-57	-2,110
Baseline w/o Repeating Supplementals /1	-331	-265	-241	-234	-210	-195	-87	62	71	96	116	-888
The President's Budget												
Tax Cuts /2		-2	-6	-15	-36	-36	-177	-267	-278	-293	-307	-1417
Outlay Effects of Tax Policies		0	-6	-6	-6	-6	-6	-22	-22	-22	-22	-119
Entitlement Cuts		3	12	13	11	12	12	12	11	9	9	103
2006 War Supplemental /3		-37	-10	-2	-1	0	0	0	0	0	0	-50
Defense Increase		-7	-11	-17	-27	-33	-37	-37	-39	-40	-42	-290
Non-Defense Discretionary Cuts		-3	13	25	32	39	43	45	47	49	50	340
Social Security Privatization		0	0	0	-22	-54	-88	-106	-118	-131	-144	-662
Debt Service	0	-1	-2	-3	-4	-8	-17	-34	-56	-80	-107	-311
Total Changes	0	-47	-10	-5	-53	-87	-271	-409	-454	-508	-562	-2406
Resulting Deficits	-331	-312	-251	-239	-263	-283	-358	-347	-383	-412	-446	-3294
The Omitted Agenda												
Further Cost of War /4		-13	-56	-58	-44	-30	-25	-26	-27	-27	-28	-333
AMT Repair		-12	-32	-39	-48	-57	-67	-78	-90	-103	-117	-642
Debt Service	0	0	-3	-8	-14	-19	-24	-31	-38	-46	-56	-240
Total Changes	0	-25	-90	-105	-106	-106	-117	-134	-155	-176	-201	-1215
Resulting Deficits	-331	-337	-342	-344	-368	-389	-474	-481	-538	-588	-647	-4509

Debt service costs based on August CBO assumptions

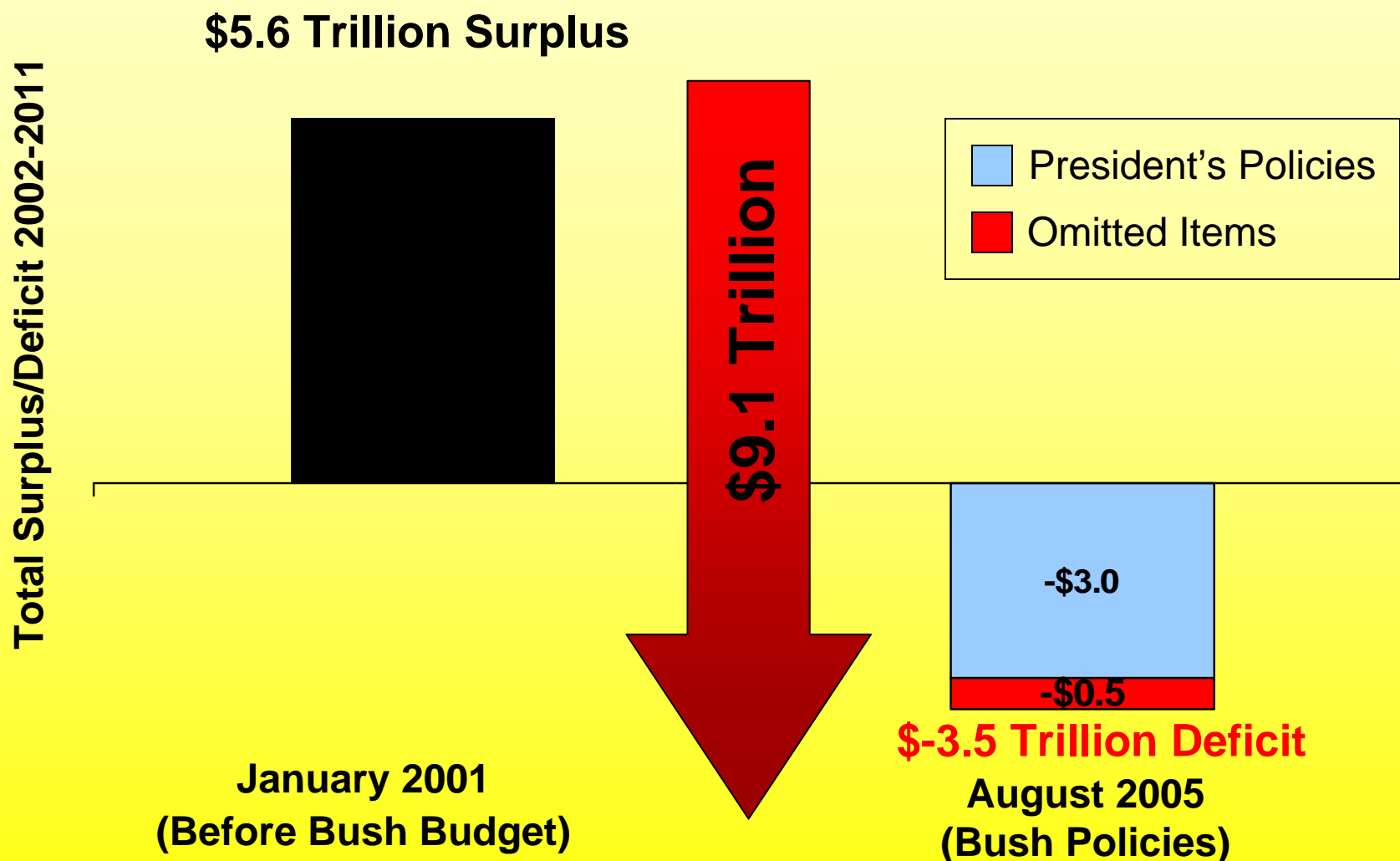
/1 Includes outlays from 2005 supplementals but assumes no supplemental funding in subsequent years

/2 Excludes enacted proposals

/3 \$50 billion in budget authority reflected in Mid-Session Review

/4 Based on CBO's estimate of ongoing war costs, adjusted for 2006 Supplemental

Surplus Declines \$9.1 Trillion Under Republican Policies



Surplus Declines **\$9.1 Trillion** Under Republican Leadership

Unified Budget Surplus, Trillions of Dollars

	2002-2011
January 2001	\$5.610
January 2002	\$1.601
January 2003	\$0.020
January 2004	\$-2.876
President's FY06 Budget, Including Omitted Costs	\$-3.533

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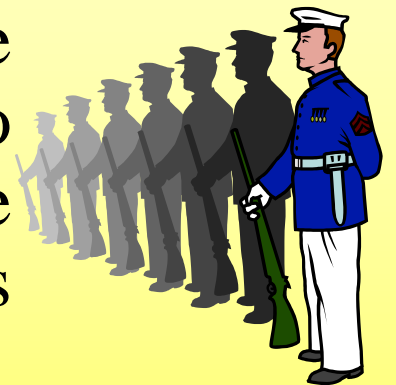
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What Else Could the Government Do With The Interest The Country Pays **Every Day** On The Publicly Held Debt?

- Invest \$1 million a day in every single congressional district

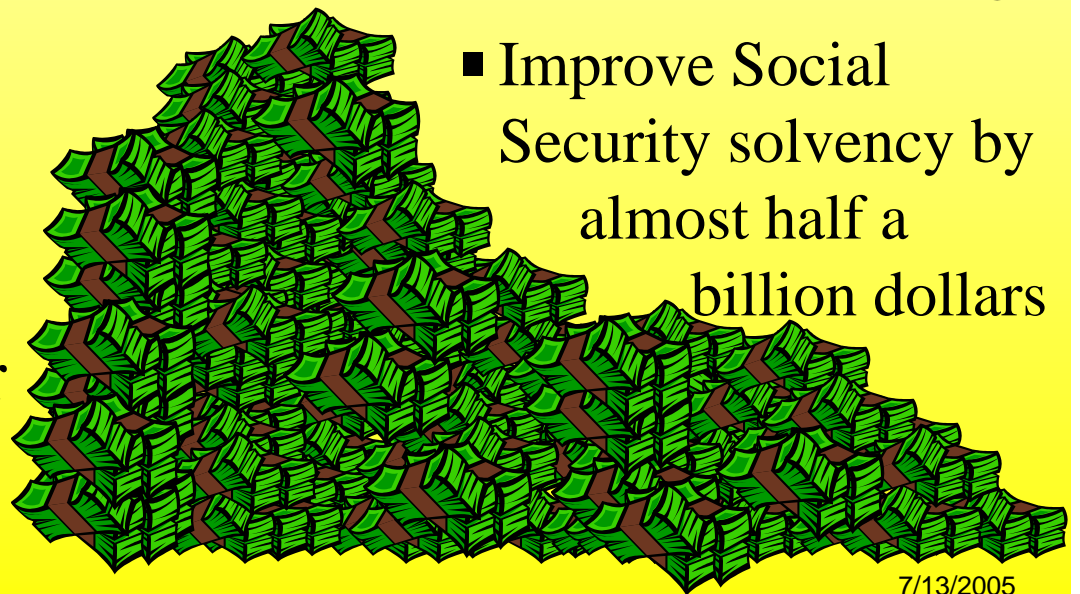


- Provide health care to 79,925 more veterans



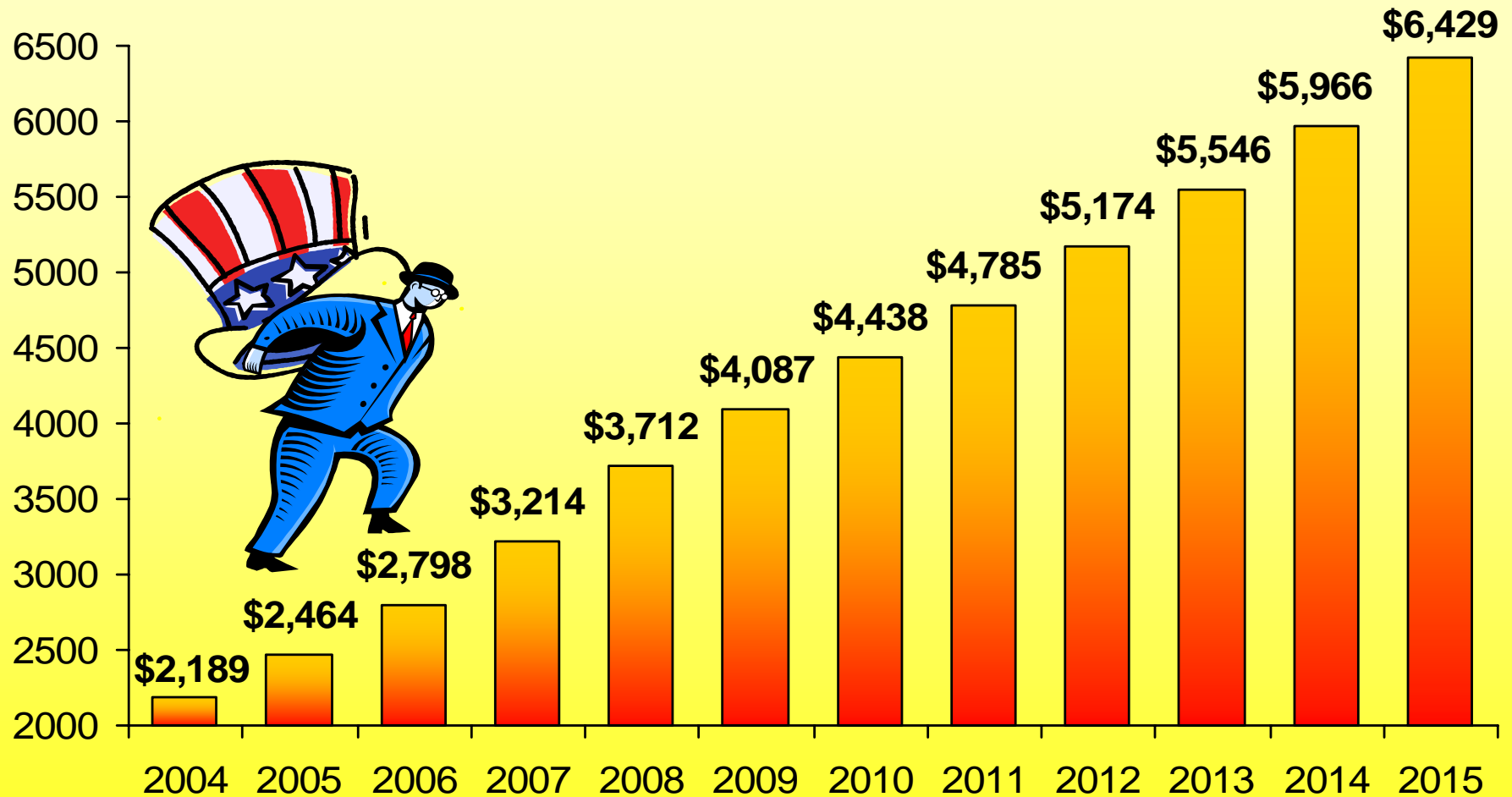
- Improve Social Security solvency by almost half a billion dollars

- Enroll 60,790 children in Head Start for an entire year



Bush Budget Raises the Debt Tax

Federal Net Interest per Family of Four



Reflects CBO's estimate of the President's Budget after 2010 and the President's omitted costs, including AMT reform and further costs of the war. Also reflects costs of the President's Social Security privatization plan.

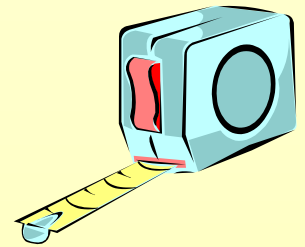
Public Debt Load on Economy Still Increasing

Debt as Percentage of GDP

2001	33.0%
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2005 Deficit: **\$331 Billion**

The third largest deficit in American history



- \$764 billion worse than CBO projected in 2001
- \$504 billion without counting Social Security surplus
- 2.7% of the GDP, or 4.1% not counting the Social Security surplus
- Three times greater than all funding for education, veterans' health care, and the Department of Justice
- Equal to all Medicare spending

Unified and On-Budget Surpluses and Deficits: 1981-2005

Billions of Dollars

Year	Unified Deficit	On-Budget Deficit
1981	-79	-74
1982	-128	-121
1983	-208	-208
1984	-185	-185
1985	-212	-222
1986	-221	-238
1987	-150	-168
1988	-155	-192
1989	-153	-205
1990	-221	-278
1991	-269	-321
1992	-290	-340
1993	-255	-300

Year	Unified Deficit	On-Budget Deficit
1994	-203	-259
1995	-164	-226
1996	-107	-174
1997	-22	-103
1998	69	-30
1999	126	2
2000	236	86
2001	128	-33
2002	-158	-317
2003	-378	-538
2004	-412	-567
2005	-331	-507